

SCHOOLCRAFT COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

SCHOOLCRAFT COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Thomas J. Klarich
Vice – Chairman

Gregory L. Hase
Chairman

Bernard J. Lund
Member

Craig J. Kelso
Engineer/Manager

Albert L. Vail
Office Manager

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA

INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, MI 49854

We have audited the accompanying financial statements of the Schoolcraft County Road Commission (a component unit of the County of Schoolcraft, Michigan) as of and for the year ended September 30, 2008, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Schoolcraft County Road Commission as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the Schoolcraft County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 29 through 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Schoolcraft County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Anderson, Tackman & Company, PLC
Certified Public Accountants

December 19, 2008

Management's Discussion and Analysis

Using This Annual Report

The Schoolcraft County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the Road Commission's financial activity; (c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts; Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the Road Commission's major fund begins on page 12. The Road Commission currently has only one fund, the general operations fund, in which all of the Road Commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 5.04% from \$7,085,075 to \$7,442,247 for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased to \$202,953, or 14.6%. The investment in capital assets net of related debt category increased \$560,125, or 9.8%.

Schoolcraft County Road Commission

Management's Discussion and Analysis September 30, 2008

Net assets as of the year ended September 30, 2008, compared to the prior year are as follows:

	Governmental Activities 9/30/2007	Governmental Activities 9/30/2008	Variance: Increase/ (Decrease)
Assets			
Current and Other Assets	\$ 2,314,345	\$ 1,978,749	\$ (335,596)
Net Capital Assets	7,553,653	8,096,290	542,637
Total Assets	9,867,998	10,075,039	207,041
Liabilities			
Current Liabilities	543,073	524,580	(18,493)
Long-Term Liabilities	2,239,850	2,108,212	(131,638)
Total Liabilities	2,782,923	2,632,792	(150,131)
Net Assets			
Invested in Capital Assets			
Net of Related Debt	5,698,165	6,258,290	560,125
Restricted	1,386,910	1,183,957	(202,953)
Total Net Assets	\$ 7,085,075	\$ 7,442,247	\$ 357,172

A summary of changes in net assets for the year ended September 30, 2008, compared to the prior year follows:

	Governmental Activities 2007	Governmental Activities 2008	Increase (Decrease)
Program Revenue			
Licenses and Permits	\$ 5,895	\$ 5,065	\$ (830)
State Grants	2,206,745	2,253,542	46,797
Contributions from Local Units	141,084	315,262	174,178
Charges for Services	1,297,180	1,451,885	154,705
Investment Earnings	60,328	37,834	(22,494)
General Revenue			
Other	-	33,531	33,531
Gain on Equipment Disposal	(705)	(1,484)	(779)
Total Revenue	<u>3,710,527</u>	<u>4,095,635</u>	<u>385,108</u>
Expenses			
Primary Road Maintenance	1,091,435	987,315	(104,120)
Local Road Maintenance	581,260	557,638	(23,622)
State Trunkline Maintenance	1,014,071	1,076,644	62,573
State Trunkline Nonmaintenance	-	106,552	106,552
Net Equipment Expense	307,707	309,970	2,263
Net Administrative Expense	109,891	202,701	92,810
Net Capital Outlay	-	(51,118)	(51,118)
Private Driveway Snow Plowing	17,411	25,096	7,685
Non-Road Project/Other Projects	26,407	43,337	16,930
Infrastructure Depreciation	338,758	383,895	45,137
Compensated Absences	(13,782)	17,439	31,221
Interest Expense	91,471	78,994	(12,477)
Total Expenses	<u>3,564,629</u>	<u>3,738,463</u>	<u>173,834</u>
Change in Net Assets	<u>\$ 145,898</u>	<u>\$ 357,172</u>	<u>\$ 211,274</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2008, the fund balance of the general operations fund decreased \$185,514 as compared to an increase of \$196,012 in the fund balance for the year ended September 30, 2007. Total revenues were \$4,249,628, an increase of \$539,101 as compared to last year. This change was due in part to an increase of maintenance audit and buyback of .75 cents on the dollar of state aid funds and proceeds from land installment purchase.

Total expenditures were \$4,435,142, an increase of \$920,627 as compared to last year. This change in expenditures is primarily due to an increase of capital outlay and an increase of road preservations.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget were compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final revenue budget for 2008 was higher than the original budget by \$526,000. This was due, in part, to the final maintenance audit of 2006. The actual revenue recognized during the current year was higher than the final amended budget by \$182,628, mainly due to proceeds of \$148,000 from a land purchase agreement not budgeted for.

The final amended expenditure budget for the current year was \$943,000 higher than the original budget, primarily due to road construction on local roads and work completed for the City of Manistique and capital outlay. The actual expenditures recognized during the current year were less than the final amended budget by \$71,630. This was primarily due to a decrease in equipment expense.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2008, the Road Commission had \$8,096,290 invested in capital assets as follows:

Capital Assets Not Being Depreciated:	
Land	\$ 244,065
Land and Improvements	<u>1,272,270</u>
Subtotal	<u>1,516,335</u>
Other Capital Assets:	
Land Improvements	50,519
Buildings and Improvements	3,474,519
Road Equipment	4,107,120
Shop Equipment	150,876
Other Equipment	33,838
Engineers' Equipment	16,865
Depletable Assets	69,508
Infrastructure – Bridges	28,031
Infrastructure – Roads	<u>5,128,178</u>
Subtotal	<u>13,059,454</u>
Total Capital Assets at Historic Cost	<u>14,575,789</u>
Total Accumulated Depreciation	<u>(6,479,499)</u>
Total Net Capital Assets	<u>\$ 8,096,290</u>

Current year's major additions included the following:

Land	\$ 198,000
Land and Improvements	219,599
Infrastructure - Roads	560,051
Road Equipment	197,462
Shop Equipment	29,303

Debt

The Road Commission currently has a debt of \$2,108,212 for the year beginning October 1, 2008. Bonds payable on the building in the amount of \$1,690,000 will be paid off over the next 19 years. Long-term liability consisting of compensated absences amount to \$270,212.

Economic Factors and Next Year's Budget

The Board considered many factors when setting the fiscal year 2008-2009 budget. One of the factors is the economy. The Commission derives approximately 50% of its revenues from the fuel tax collected. The recent economic downturn and the increase in the cost of fuel has resulted in less consumption of fuel and consequently less Michigan Transportation Funds tax to be distributed. It is estimated that Motor Vehicle Highway funds will decline in the next fiscal year by 4% due to a slow down in the economy and vehicle traffic.

The Board realizes, and the reader should understand, that there are not sufficient funds available to repair and or rebuild every road in Schoolcraft County's transportation system. Therefore, the Board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Schoolcraft County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Schoolcraft County Road Commission administrative offices at Tannery Location, Manistique, Michigan 49854, (906) 341-5634.

Basic Financial Statements

Schoolcraft County Road Commission

Statement of Net Assets September 30, 2008

ASSETS

Cash and Equivalents	\$ 551,223
Accounts Receivable:	
Michigan Transportation Fund	294,205
State Trunkline Maintenance	42,221
State – Other	13,707
Due on County Road Agreements	556,810
Sundry Accounts	22,367
Inventories:	
Road Materials	304,611
Equipment, Parts and Materials	137,570
Prepaid Expenses	33,235
Unamortized Discount on Bonds	22,800
Capital Assets (Net of Accumulated Depreciation)	<u>8,096,290</u>
Total Assets	<u>\$ 10,075,039</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 26,748
Accrued Liabilities	74,759
Advances:	
State Equipment & Budget Advance	211,277
Advances from Buy-Back Funds	112,763
Driveway Snow Plowing Deposits	16,254
Deferred Revenue:	
EDF Forest Road	81,752
Deferred Revenue – Other	1,027
Bonds Payable	55,000
Land Installment Purchase	35,750
Compensated Absences	67,553
Noncurrent Liabilities:	
Bonds Payable	1,635,000
Land Installment Purchase	112,250
Compensated Absences	<u>202,659</u>
Total Liabilities	<u>\$ 2,632,792</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	\$ 6,258,290
Restricted for County Road	<u>1,183,957</u>
Total Net Assets	<u>\$ 7,442,247</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Statement of Activities For the Year Ended September 30, 2008

Program Expenses:	
Primary Road Maintenance	\$ 987,315
Local Road Maintenance	557,638
State Trunkline Maintenance	1,076,644
State Trunkline Nonmaintenance	106,552
Private Driveway Plowing	25,096
Other Projects	43,337
Net Equipment Expense	309,970
Net Administrative Expense	202,701
Net Capital Outlay	(51,118)
Infrastructure Depreciation	380,528
Land Improvement Depreciation	3,367
Compensated Absences	17,439
Interest Expense	<u>78,994</u>
Total Program Expenses	<u>3,738,463</u>
Program Revenues:	
License and Permits	5,065
State Grants	2,253,542
Contributions from Local Units	315,262
Charges for Services	<u>1,451,885</u>
Total Program Revenues	<u>4,025,754</u>
Net Program Revenues	<u>(287,291)</u>
General Revenue:	
Investment Earnings	37,834
Gain on Equipment Disposal	(1,484)
Other	<u>33,531</u>
Total General Revenues and Transfers In	<u>69,881</u>
Change in Net Assets	357,172
Net Assets:	
Beginning of Year	<u>7,085,075</u>
End of Year	<u>\$ 7,442,247</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Balance Sheet
September 30, 2008

	<u>Governmental</u> <u>Fund Type</u> <u>General</u> <u>Operating Fund</u>
<u>ASSETS</u>	
Cash and Equivalents	\$ 551,223
Accounts Receivable:	
Michigan Transportation Fund	294,205
State Trunkline Maintenance	42,221
State – Other	13,707
Due on County Road Agreements	556,810
Sundry Accounts	22,367
Inventories:	
Road Materials	304,611
Equipment, Parts, and Materials	137,570
Prepaid Expenses	33,235
Unamortized Discount on Bonds	<u>22,800</u>
Total Assets	<u>\$ 1,978,749</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 26,748
Accrued Liabilities	74,759
Advances:	
State Equipment & Budget Advance	211,277
Advances from Buy-Back Funds	112,763
Driveway Snow Plowing Deposits	16,254
Deferred Revenue:	
EDF Forest Road	81,752
Other	<u>1,027</u>
Total Liabilities	<u>524,580</u>
Fund Equities:	
Fund Balance:	
Reserved for Inventory	442,181
Reserved for Prepaid Expenses	33,235
Unreserved and Undesignated	<u>978,753</u>
Total Fund Equities	<u>1,454,169</u>
Total Liabilities and Fund Equities	<u>\$ 1,978,749</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended September 30, 2008

Total Governmental Fund Balance	\$ 1,454,169
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,096,290
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,108,212)</u>
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Net Assets of Governmental Activities	<u>\$ 7,442,247</u>
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The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2008

	General Operating Fund
Revenues:	
License and Permits	\$ 5,065
State Sources	2,253,542
Contributions from Local Units	315,262
Charges for Services	1,451,885
Interest and Rents	37,834
Other Revenue	<u>38,040</u>
Total Revenues	<u>4,101,628</u>
Expenditures:	
Public Works	4,043,778
Capital Outlay	146,882
Debt Service	<u>244,482</u>
Total Expenditures	<u>4,435,142</u>
Excess of Revenues Over (Under) Expenditures	(333,514)
Other Financing Sources:	
Proceeds From Land Installment Purchase	<u>148,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(185,514)
Fund Balance – October 1, 2007	<u>1,639,683</u>
Fund Balance – September 30, 2008	<u>\$ 1,454,169</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2008

Net Change in Fund Balance – Total Governmental Funds	\$ (185,514)
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded disposals and depreciation in the current period.	542,637
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Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	165,488
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Land installment purchase proceeds provide current financial resources to Governmental funds, but entering into installment purchase agreements Increase long-term liabilities in the Statement of Net Assets.	(148,000)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(17,439)
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Change in Net Assets of Governmental Activities	<u>\$ 357,172</u>
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The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Schoolcraft County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Schoolcraft County Road Commission.

A. Reporting Entity

The Schoolcraft County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Schoolcraft County Road Commission, a discretely presented component unit of Schoolcraft County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Schoolcraft County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue includes 1) charges to customers or to applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than program revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34 for phase 1 and 2 governmental units. The Schoolcraft County Road Commission is a phase 3 governmental unit, which allows for prospective reporting of infrastructure assets, and the Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis for infrastructure assets purchased since 2002.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment & Vehicles	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year, and are permitted to accumulate up to a maximum of 2 years of vacation benefits.

Sick leave benefits are earned at the rate of 1 day for each calendar month in which the employee has worked at least 12 days and shall be accumulated up to 105 days. Upon reaching the maximum 105 days of sick leave, an additional 2 days per year will be granted for each year of agreement. Maximum sick days will be 111. Upon retirement or death, an employee, or his estate, shall be paid for 100% of accumulated sick leave. The total vacation and sick leave amount of \$270,212 is recorded in the statement of net assets as a liability.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (managing director) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

The Road Commission has not complied with certain provisions of Public Act 2 of 1968, as amended. Expenditures were incurred in excess of the amount appropriated in the amended budget for one activity of the County Road Fund as follows:

	Final Amended Budget	Actual	Variance (Unfavorable)
County Road Fund			
Other	\$ 26,000	\$ 68,433	\$ (42,433)

NOTE 3 - CASH AND EQUIVALENTS

The composition of cash and investments as reported in the Statement of Net Assets is presented below:

Financial statement presentation:

Cash and equivalents	\$ 551,223
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Composition of balances:

Imprest Cash	\$ 2,000
Bank deposits (checking and savings accounts and cd's)	549,223

TOTAL	\$ 551,223
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Michigan statutes authorize the Road Commission to invest in bonds, other direct obligations and repurchase agreements of the United States, certificate of deposits, saving accounts, deposit accounts or receipt of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk. The Road Commission carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of September 30, 2008, the Road Commission did not hold any commercial paper.

NOTE 3 - CASH AND DEPOSITS (Continued)

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the Road Commission's deposits may not be returned. At September 30, 2008, the Road Commission held \$62,177 in checking accounts all of which was insured.

The risk disclosures for the Road Commission deposits (in regards to the savings accounts), as required by GASB Statement No. 40, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage. The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Concentration of Credit Risk. The Road Commission has no significant concentration of credit risk due to the fact that its deposits are with area banks.

Foreign Currency Risk. The Road Commission has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the Road Commission are in accordance with statutory authority.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Schoolcraft County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Schoolcraft County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Schoolcraft County Road Commission's financial statements.

Schoolcraft County Road Commission

Notes to Financial Statements For the Year Ended September 30, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Schoolcraft County Road Commission for the current year was as follows:

	Beginning Balances 10/01/07	Additions	Adjustments/ Deductions	Ending Balances 09/30/08
Capital Assets Not Being Depreciated				
Land	\$ 46,065	\$ 198,000	\$ -	\$ 244,065
Land and Improvements	1,052,671	219,599	-	1,272,270
Subtotal	1,098,736	417,599	-	1,516,335
Capital Assets Being Depreciated				
Land Improvements	50,519	-	-	50,519
Buildings	3,465,028	9,491	-	3,474,519
Road Equipment	3,935,196	197,462	25,538	4,107,120
Shop Equipment	121,573	29,303	-	150,876
Office Equipment	33,838	-	-	33,838
Engineers' Equipment	16,865	-	-	16,865
Depletable Assets	69,508	-	-	69,508
Infrastructure – Bridges	28,031	-	-	28,031
Infrastructure – Roads	4,568,127	560,051	-	5,128,178
Subtotal	12,288,685	796,307	25,538	13,059,454
Less Accumulated Depreciation				
Land Improvements	13,471	3,367	-	16,838
Buildings and Improvements	793,859	99,096	-	892,955
Road Equipment	3,691,581	172,210	19,547	3,844,244
Shop Equipment	93,321	7,172	-	100,493
Office Equipment	22,601	2,604	-	25,205
Engineers' Equipment	16,563	302	-	16,865
Depletable Assets	22,403	-	-	22,403
Infrastructure – Bridges	11,680	2,336	-	14,016
Infrastructure – Roads	1,168,288	378,192	-	1,546,480
Subtotal	5,833,767	665,279	19,547	6,479,499
Net Capital Assets Being Depreciated	6,454,918	131,028	5,991	6,579,955
Total Net Capital Assets	\$ 7,553,654	\$ 548,627	\$ 5,991	\$ 8,096,290

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the Schoolcraft County Road Commission as follows:

Net Equipment Expense:	
Direct Equipment	\$ 172,210
Indirect Equipment:	
Shop Building	99,096
Shop Equipment	7,172
Net Administrative Expense:	
Engineer Equipment	302
Office Equipment and Furniture	2,604
Infrastructure	380,528
Land Improvement	<u>3,367</u>
Total Depreciation Expense	<u>\$ 665,279</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT

Plan Description – The Schoolcraft County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.50% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2007.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Actuarial Accrued Liability – All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2007 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

GASB 25 INFORMATION (as of 12/31/2007)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 7,223,498
Terminated employees (vested former members) not yet receiving benefits	50,192
Current employees –	
Accumulated employee contributions including allocated investment income	67,396
Employer financed	<u>3,795,755</u>
Total Actuarial Accrued Liability	\$ 11,136,841
Net Assets Available for Benefits at Actuarial Value (Market Value is \$6,974,643)	<u>6,894,218</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 4,242,623</u>

GASB 27 INFORMATION (as of 12/31/2007)

Fiscal Year Beginning	January 1, 2009
Annual Required Contribution (ARC)	\$ 368,712
Amortization Factor Used – Underfunded Liabilities (28 years)	0.055889

Funding Policy – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual Pension Costs – The normal cost and amortization payment for the fiscal year ended December 31, 2007 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute \$360,036 for the year ended September 30, 2008. Payments were based on contribution calculations made by MERS.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

<u>Annual Pension Cost</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual Pension Cost (APC)	\$ 253,725	\$ 301,221	\$ 328,590
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
<u>Aggregate Accrued Liabilities</u>			
Actuarial Value of Assets	\$ 6,424,004	\$ 6,660,345	\$ 6,894,218
Actuarial Accrued Liability	9,603,356	10,501,104	11,136,841
Unfunded AAL	(3,179,352)	(3,840,759)	(4,242,623)
Funded Ratio	67%	63%	62%
Covered Payroll	1,258,646	1,161,701	1,219,310
UAAL as a Percentage of Covered Payroll	253%	331%	348%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

NOTE 7 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>10/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>09/30/08</u>
MTF Bonds Payable – 2002 Series	\$ 1,745,000	\$ -	\$ 55,000	\$ 1,690,000
Loans Payable:				
Wells Fargo 2003 Equipment	110,448	-	110,448	-
Land Installment Purchase – 2008	-	148,000	-	148,000
Compensated absences (1)	<u>252,773</u>	<u>17,439</u>	<u>-</u>	<u>270,212</u>
Total	<u>\$ 2,108,221</u>	<u>\$ 165,439</u>	<u>\$ 165,448</u>	<u>\$ 2,108,212</u>

(1) The change in compensated absences is shown as a net deletion.

In July 2002, the County of Schoolcraft approved a Schoolcraft County Road Commission Michigan Transportation Fund Bond Issue for the purpose of constructing Road Commission buildings. The issue was for \$2,000,000 and requires annual principal payments each August 1st and semi-annual interest payments each February 1st and August 1st and has a variable interest rate ranging from 2% to 4.85%. The annual debt service requirements are as follows:

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds Payable:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 55,000	\$ 76,810	\$ 131,810
2010	60,000	74,940	134,940
2011	60,000	72,780	132,780
2012	65,000	70,560	135,560
2013	65,000	68,090	133,090
2014-2018	385,000	296,548	681,548
2019-2023	500,000	200,094	700,094
2024-2027	<u>500,000</u>	<u>64,250</u>	<u>564,250</u>
Total Bonds Payable	<u>\$ 1,690,000</u>	<u>\$ 924,072</u>	<u>\$ 2,614,072</u>

Land Installment Purchase:

In 2008, the Road Commission entered into a land installment purchase agreement in the amount of \$148,000 to purchase the Graves property for \$198,000, requiring an initial \$50,000 down payment. The agreement calls for principal payments due on each February 21st of 2009-2012 in the amount of \$35,750, and 2018 in the amount of \$5,000.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at September 30, 2008. Management is unaware of any such claims as of September 30, 2008.

Risk Management – The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

The County Road Commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to Road Commissions and related Road Commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for Road Commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

NOTE 9 - POST-EMPLOYMENT BENEFITS

The Road Commission provides post-employment health care benefits in accordance with the labor contract and personnel policy as follows:

Effective January 1, 2000, upon retirement or disability retirement, from age 55 to 65 each employee will receive single subscriber health insurance benefits at a cost of 100% paid by the Road Commission. In order to be eligible between the ages of 55 to 65, the retiree must have worked a minimum of 15 years with the Road Commission. After age 60, years of service is not an eligibility requirement. At age 65 or older, the Road Commission will only pay \$50 per month towards retirees' supplemental insurance. There were 14 employees that qualified during the year ended September 30, 2008. The total cost was \$444,006 and the amount reimbursed by retirees was \$31,723 with a net cost to the Road Commission of \$412,283. The expenditures are recognized as the insurance premiums become due.

Supplementary Information

Schoolcraft County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 5,000	\$ 5,000	\$ 5,065	\$ 65
State Sources				
Michigan Transportation Fund				
Engineering	-	10,000	10,000	-
Snow Removal	-	127,000	126,693	(307)
Allocation	1,800,000	1,670,000	1,693,848	23,848
Economic Development Fund				
Forest Road	200,000	200,000	183,000	(17,000)
Buy Back	337,000	250,000	240,000	(10,000)
Contributions from Local Units				
Townships & City	140,000	322,000	315,262	(6,738)
Charges for Services				
Trunkline Maintenance	900,000	1,240,000	1,259,262	19,262
Trunkline Non-Maintenance	82,000	100,000	106,612	6,612
Salvage Sales	-	16,000	17,625	1,625
Other	-	-	68,386	68,386
Interest and Rents	40,000	40,000	37,834	(2,166)
Other Revenue				
Driveway Plowing	25,000	25,000	25,096	96
Other	12,000	55,000	8,435	(46,565)
Gain on Equipment Disposal	-	7,000	4,509	(2,491)
Total Operating Revenue	3,541,000	4,067,000	4,101,628	34,628
Total Financing Sources				
Proceeds from Land Installment Purchase	-	-	148,000	148,000
Total Revenue and Other Financing Sources	<u>\$ 3,541,000</u>	<u>\$ 4,067,000</u>	<u>\$ 4,249,628</u>	<u>\$ 182,628</u>

Schoolcraft County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 400,000	\$ 377,658	\$ 354,748	\$ 22,910
Maintenance	608,772	1,000,000	987,315	12,685
Local Road				
Heavy Maintenance	200,000	452,342	424,902	27,440
Maintenance	450,000	560,000	557,638	2,362
State Trunkline Maintenance	900,000	1,086,000	1,076,644	9,356
State Trunkline Nonmaintenance	82,000	107,000	106,552	448
Equipment Expense – Net	(100,000)	268,000	267,749	251
Administrative Expense – Net	30,000	200,000	199,796	204
Capital Outlay – Net	(130,000)	149,772	146,883	2,889
Distributive Expense – Net	850,000	-	-	-
Other	25,000	26,000	68,433	(42,433)
Debt Service				
Principal and Interest	248,000	280,000	244,482	35,518
Total Expenditures	3,563,772	4,506,772	<u>\$ 4,435,142</u>	<u>\$ 71,630</u>
Fund Balance – October 1, 2007	1,639,683	1,639,683		
Total Budget	<u>\$ 5,203,455</u>	<u>\$ 6,146,455</u>		

Schoolcraft County Road Commission**Analysis of Changes in Fund Balances
For the Year Ended September 30, 2008**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues and Other Financing Sources	\$ 1,652,235	\$ 633,184	\$ 1,964,209	\$ 4,249,628
Total Expenditures	<u>1,551,405</u>	<u>1,138,825</u>	<u>1,744,912</u>	<u>4,435,142</u>
Excess of Revenues Over (Under) Expenditures	100,830	(505,641)	219,297	(185,514)
Other Financing Sources (Uses)				
Optional Transfers In (Out)	<u>(390,000)</u>	<u>390,000</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(289,170)	(115,641)	219,297	(185,514)
Fund Balance -- October 1, 2007	<u>749,840</u>	<u>217,117</u>	<u>672,726</u>	<u>1,639,683</u>
Fund Balance -- September 30, 2008	<u>\$ 460,670</u>	<u>\$ 101,476</u>	<u>\$ 892,023</u>	<u>\$ 1,454,169</u>

The Notes to Financial Statements are an integral part of this statement.

Schoolcraft County Road Commission

Analysis of Revenues For the Year Ended September 30, 2008

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 5,065	\$ 5,065
State Sources				
Michigan Transportation Fund				
Engineering	7,700	2,300	-	10,000
Snow Removal	-	126,693	-	126,693
Allocation	1,300,234	393,614	-	1,693,848
Economic Development Fund				
Forest Road	87,000	96,000	-	183,000
Buy Back	240,000	-	-	240,000
Contributions from Local Units				
Townships & City	-	9,567	305,695	315,262
Charges for Services				
Trunkline Maintenance	-	-	1,259,262	1,259,262
Trunkline Non-Maintenance	-	-	106,612	106,612
Salvage Sales	-	-	17,625	17,625
Other – Royalties Sand & Gravel	-	-	68,387	68,387
Interest and Rents	17,302	5,009	15,523	37,834
Other Revenue				
Driveway Plowing	-	-	25,096	25,096
Other	-	-	8,435	8,435
Gain on Equipment Disposal	-	-	4,509	4,509
Total Operating Revenue	1,652,236	633,183	1,816,209	4,101,628
Total Financing Sources				
Proceeds from Land Installment Purchase	-	-	148,000	148,000
Total Revenue and Other Financing Sources	<u>\$ 1,652,236</u>	<u>\$ 633,183</u>	<u>\$ 1,964,209</u>	<u>\$ 4,249,628</u>

The Notes to Financial Statements are an integral part of this statement

Schoolcraft County Road Commission

Analysis of Expenditures For the Year Ended September 30, 2008

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 344,698	\$ -	\$ -	\$ 344,698
Maintenance	987,315	-	-	987,315
Safety Projects	10,050	-	-	10,050
Local Road				
Heavy Maintenance	-	424,902	-	424,902
Maintenance	-	557,638	-	557,638
State Trunkline Maintenance	-	-	1,076,644	1,076,644
State Trunkline Nonmaintenance	-	-	106,552	106,552
Equipment Expense – Net	92,802	71,837	103,110	267,749
Administrative Expense – Net	115,348	84,448	-	199,796
Capital Outlay – Net	(132,768)	-	279,651	146,883
Other	-	-	68,433	68,433
Debt Service				
Debt Principal Payments	55,000	-	110,488	165,488
Interest Expense	78,961	-	33	78,994
Total Expenditures	<u>\$ 1,551,406</u>	<u>\$ 1,138,825</u>	<u>\$ 1,744,911</u>	<u>\$ 4,435,142</u>

The Notes to Financial Statements are an integral part of this statement

Compliance Reports



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Schoolcraft County Road Commission
P.O. Box 160
Manistique, MI 49854

We have audited the financial statements of the Schoolcraft County Road Commission as of and for the year ended September 30, 2008, which collectively comprise the Road Commission's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Schoolcraft County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Schoolcraft County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, as items 08-1 and 08-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Schoolcraft County Road Commission.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schoolcraft County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Schoolcraft County Road Commission in a separate letter dated December 19, 2008.

This report is intended solely for the information and use of the Board, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

December 19, 2008

SCHOOLCRAFT COUNTY ROAD COMMISSION
SCHEDULE OF FINDINGS & RESPONSES
For the Year Ended September 30, 2008

A. FINDINGS – FINANCIAL STATEMENT AUDIT

08-1. SIGNIFICANT AUDIT ADJUSTMENTS

Finding: Audit adjustments, which were more than inconsequential, were needed to adjust the financial reporting of the Schoolcraft County Road Commission.

Recommendation: As required by Generally Accepted Accounting Principles, we recommend long-term liabilities be recorded in the General Long-Term Debt Account Group and proceeds from installment purchases be recorded in the General Operating Fund.

Management Response: In the future, all long-term liabilities of the Road Commission will be recorded in the General Long-Term Debt Account Group and loan proceeds from installment purchases will be reflected properly in the General Operating Fund.

08-2. PREPARATION OF FINANCIAL STATEMENTS

Finding: The Schoolcraft County Road Commission does not prepare their own financial statements.

Recommendation/Comment: A recently issued Statement on Auditing Standards No. 112 (SAS 112) now requires a significant deficiency be reported as a result of the Road Commission not possessing an individual qualified to prepare financial statements and the required footnote disclosures.

Management Response: The Schoolcraft County Road Commission has chosen their independent auditor to prepare these financial statements and required footnote disclosures on their behalf.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
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Kevin C. Pascoe, CPA

REPORT TO MANAGEMENT

To the Board of County Road Commissioners
Schoolcraft County Road Commission
Manistique, MI 49854

Audit Committee Communications

We have audited the financial statements of the Schoolcraft County Road Commission, Michigan for the year ended September 30, 2008, and have issued our report thereon dated December 19, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated November 3, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with our oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Schoolcraft County Road Commission, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Schoolcraft County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 3, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Schoolcraft County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Our audit adjustments, individually and in the aggregate, were material and were primarily made to properly accrue revenues and expenditures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Schoolcraft County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

In planning and performing our audit of the financial statements of the Schoolcraft County Road Commission, Michigan for the year ended September 30, 2008, we considered the Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency.

This information is intended solely for the use of the board members and management of the Schoolcraft County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 19, 2008

SCHOOLCRAFT COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

September 30, 2008

APPROVAL OF TIME SHEETS

Comment:

We noted a lack of documentation relating to the approval of employee timesheets.

Recommendation:

We recommend the Engineer/Manager review and sign a pay period summary of hours to document the approval process.

APPROVAL OF JOURNAL ENTRIES

Comment:

Journal entries were initiated and recorded by the Office Manager and were not being reviewed by another member of management.

Recommendation:

We recommend journal entries recorded to adjust the general ledger of the Road Commission be reviewed by the Engineer/Manager. Journal entries should provide adequate explanation to the purpose of the adjustment, and reviewed and initialed by the Engineer/Manager, preferably on a monthly basis. Such management oversight assists in strengthening the internal controls over the financial reporting of the Road Commission.